

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of)

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Price Cap Performance Review)
for Local Exchange Carriers)

CC Docket No. 94-1

REPLY COMMENTS OF TELEPORT COMMUNICATIONS GROUP INC.

Teleport Communications Group Inc. ("TCG") offers the following reply comments in response to the comments of the Regional Bell Operating Companies ("RBOC") and the United States Telephone Association ("USTA") regarding price cap reform.

The RBOC and USTA Comments claim that revision to the existing price cap rules is necessary to meet expanding competition. These claims are false.

Many LECs cite this Commission's collocation decisions as leading to expanded competition.¹ Since those comments were filed, the centerpiece of the Commission's policies, physical collocation, has been reversed by the Court of Appeals.² This finding that the Commission lacked the authority to mandate physical collocation will diminish, not increase, the prospects for competition.

Many LECs claim that their competitors are subject to

¹See Bell Atlantic Comments at p. 4; NYNEX Comments at 16; Pacific Bell & Nevada Bell Comments at 77; U S WEST Comments at 60.

²Bell Atlantic Tel. Co. v. F.C.C., No. 92-1619 (D.C. Cir. June 10, 1994).

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substantially reduced tariff and regulatory burdens.³ Since those comments were filed, the Supreme Court has found that the Commission lacks the authority to forebear from tariff regulation for nondominant carriers,⁴ and the LEC attacks on the Commission's rate range rules will now begin at the Court of Appeals. These events will also diminish, not increase, the prospects for competition.

Many LECs claim that changes in technology and markets demand price cap revision.⁵ But the technology and market changes referenced are either far off in the future, relate to different markets -- or even relate to increases in the LEC's market opportunities in other fields (video dial tone). The Commission must also understand that the availability of technology does not mean that it is legally permissible or economically feasible to put such technology to use.

Many LECs point to the existence of potential competitors as a justification for further pricing flexibility.⁶ RBOCs argue unconvincingly that accurate views of competitive pressure are

³See Pacific Bell & Nevada Bell Comments at p. 67; U S WEST Comments at 62.

⁴MCI Telecommunications Corporation v. AT&T, Nos. 93-356 and 93-521, slip opinion, June 17, 1994.

⁵See Bell Atlantic Comments at pp. 2-3; NYNEX Comments at 18; U S WEST Comments at 70.

⁶See Ameritech Comments at p. 30; NYNEX Comments at pp. 16-17.

reflected in the presence of potential sources of competition.⁷ LECs have created an apocalyptic atmosphere, speculating that the advent of PCS and the expected provision of telephony services by CATV companies will "soon" provide customers with LEC service.⁸ Many RBOCs claim that the convergence of technologies will change the marketplace and provide additional sources of competition.⁹

The Commission should institute regulatory changes only when actual, measurable market changes justify such revisions. While much time and effort has been spent divining the future marketplace, current market realities are ignored. Today, local exchange carriers control 99% of the interstate access market of the two largest consumers of access and even more of the total exchange market. The potential for competitive entry cannot be considered significant or threatening to the LECs when the LECs have 99% of the market and the protection of operational, legal, and economic barriers to entry or effective competition.

Many LECs, and USTA, claim that the Commission should use market measures of "addressability" or theoretical competition to evaluate whether price cap changes are needed.¹⁰ Addressability

⁷See Ameritech Comments at p. 30; see also Pacific Bell & Nevada Bell Comments at 77.

⁸See U S WEST Comments at 70; Pacific Bell & Nevada Bell Comment at 95 & 94.

⁹See NYNEX Comments at 12.

¹⁰See also BellSouth Comments at p. 81; Southwestern Bell Comments, Appendix COMP at 9; Bell Atlantic Comments at 20; Pacific Bell & Nevada Bell Comments at 100; GTE Comments at 47.

is based on the physical presence of alternative providers with the capacity and geographic coverage to serve a substantial portion of the market -- irrespective of whether they actually do serve that market, or whether their networks can in fact be extended to serve those customers.¹¹ Frankly, this issue is one which differs from situation to situation, and can turn on factors as variable as the willingness of a landlord to permit access, whether rights of way are available or must be acquired, and whether municipal or other licenses would be required. A customer cannot be presumed to have a competitive alternative available until it actually is available.

Despite LEC claims that the "future is now," the simple reality is that the marketplace will continue to be non-competitive until local exchange competition is legal, economically viable and technically feasible. That reality is far off in most jurisdictions,¹² and recent legal developments

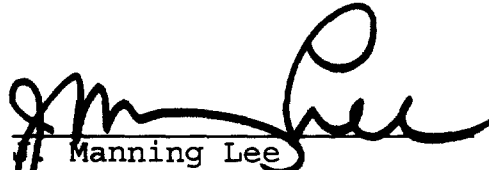
¹¹See USTA Comments at 58-62.

¹²CAPs have never been authorized to offer local exchange services, except in Maryland, Washington and New York (and there only recently). No CAPs are currently offering local exchange services in any of these states, since the operational, technical and economic prerequisites to such competition are not yet in place.

-5-

certainly do not hasten its arrival. Accordingly, the LECs require no relaxation of price cap rules.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J. Manning Lee". The signature is fluid and cursive, with a large loop at the end.

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June 29, 1994

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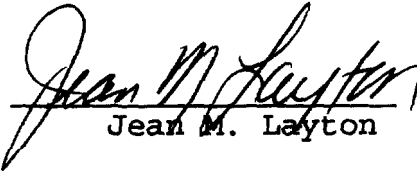
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